House K-12 Finance Workgroup

The members of the House K-12 Finance Workgroup adopted the following conclusions and recommendations for next steps at their meeting on July 12, 2004. These will be incorporated into a final Workgroup report in the fall.

Brief Background

The House K-12 Finance Workgroup was organized after the end of the 2004 legislative session as a bi-partisan effort to examine the structure of our K-12 finance system and to determine whether that system is consistent with our education policies. Membership on the Workgroup was made up of 16 Representatives, 8 Democrats and 8 Republicans. The Workgroup received presentations from the Office of the Superintendent of Public Instruction, the Office of Financial Management, the Professional Educator Standards Board, school district representatives, the University of Washington's School Finance Redesign Project, and legislative staff.

Conclusions

We find that the general approach of our K-12 funding framework is structurally sound. The focal point of our finance system is student enrollment, which is consistent with our standards-based education policies. Whether schools are teaching from an input-based policy framework or a standards-based policy framework, state funding must be allocated to districts in a consistent and equitable manner that attempts to recognize the basic costs of educating all students as well as the additional costs of educating special needs populations such as special education students, English language learners, and students needing remedial help. Our system does that.

There are, however, a number of weaknesses in our funding formulas that need further consideration, and more could be done to better align the funding structure with our education policies. Accountability measures have not been incorporated into our funding system. The funding formulas provide neither incentives for achievement nor disincentives for failure. Although some help is provided to struggling schools through education reform grant programs such as focused assistance and math helping corps, these programs are not available to all districts similarly situated, and they have not been integrated into our definition of basic education funding. Our funding structure does not encourage teaching in hard-to-serve schools or difficult-to-fill positions such as math and science, nor does it recognize cost-of-living variations among regions in the state. Our state teacher compensation system does not reward student achievement, or, except for the bonus for National Board certification, excellence in teaching. Although limited funding for mentoring is included in a few grant programs, the state compensation structure itself does not reward mentoring.

According to national K-12 finance experts, the art of linking finance structures to student achievement is relatively new and knowledge about how to do this effectively and efficiently is limited. Over the next couple of years, the University of Washington's School Finance Redesign Project will examine how finance structures can be better linked to student performance and how money can be used more effectively to support student achievement. Washington is one of four states in which field work will be conducted. Given the constraints of limited time and resources, the House Workgroup defined finance structure narrowly, concentrating on the mechanisms and formulas used to allocate state money to districts and those used to allow and limit local revenue enhancements. But funding structure can be conceived much more broadly to include the rules and regulations that accompany the dollars the state sends to districts as well as the decisions made at the district and school level in the use of the dollars. The UW's study will use this broader definition of finance structures, thus adding depth and breadth to the knowledge acquired through the Workgroup. The UW study is the most comprehensive ever undertaken on education funding adequacy, and its findings regarding linking finance structures to student performance will add substantially to existing knowledge. We should follow their progress closely over the next few years.

Next Steps

Based on the Workgroup's overview of state education funding formulas and structures, the following areas have emerged as warranting further structural review leading, potentially, to revisions.

Teacher compensation. Although knowledge of how to link finance systems with student performance is limited, teacher compensation is the one aspect of education finance that researchers agree is crucial. According to national education finance experts, the level and structure of teacher pay are key to providing a quality teacher in every classroom and accomplishing the goals of standards-based education reform. Additionally, as staff from the Professional Educator Standards Board demonstrated, the state salary allocation schedule is not aligned with the system of professional development and certification put in place in the last few years. While the new professional development and certification process affects only about 8,000 teachers currently, that number will continue to grow as new teachers enter the system. The Legislature should establish a process to evaluate a new teacher salary structure that is aligned with our standards-based policies as well as our certification and professional development policies. Consideration should be given to including factors that take into account market forces such as regional cost-of-living differences and teaching in hard-to-serve schools and in difficult-to-fill positions such as science and math; that provide additional incentives for mentoring and for increasing student achievement; and that encourage and reward professional development through knowledge- and skills-based pay.

Thirty-four of our 296 school districts receive higher salary allocations for teachers because the state stopped short of fully equalizing district salaries in the late 1980s. In evaluating a new teacher compensation system, care should be taken to ensure a rational basis for differences in state salary allocations. Additionally, the "average" salaries used to drive out funding for administrators and classified staff are based on specific district practices in the 1980s, differ substantially from district to district, and are unrelated to actual current salaries. More equitable mechanisms for allocating state funding for administrator and classified salaries should also be evaluated.

The special education allocation formula and the safety net process. There is a very active public debate taking place over both the adequacy and the structure of our special education funding formulas and our safety net process. This is a large, complicated and frequently emotional topic. The Workgroup focused on learning about the basic mechanics of how the state provides special education funding to districts. In the process it became apparent that a number of issues warrant further consideration. These issues include such things as the efficacy of the safety net process; the potential lack of equity as well as adequacy resulting from allocations based on presumed average costs versus an approach that recognizes varying costs based on disability criteria or Individual Education Plans; the methodology districts use to report their special education expenditures; and whether it is possible to objectively distinguish between costs arising from factors within the districts' control and those arising from factors beyond the districts' control. The Legislature should conduct an in-depth examination of the entire special education funding structure to ensure that is sensitive to the changing demographics of the population served.

The student transportation formula. The state student transportation allocation formula was developed in the early 1980s based on the practices and costs of a small number of districts, and it has not been re-examined since. Districts have told us that the student transportation formula over-compensates some districts and under compensates most others. The Legislature should examine whether the student transportation allocation formula equitably and adequately funds student transportation. It should consider whether the per mile per student allocation rate, which has been adjusted only by inflation and legislatively authorized compensation changes since the early 1980s, adequately reflects current compensation, fuel, and other operating costs. It should ask whether advances in technology have made it possible to base allocations on actual miles rather than on weighted straight-line miles. The Legislature should consider whether education reform policies have changed transportation demands on districts by requiring or encouraging such things as high school community service field projects and extended-day programs. And finally, the system for reimbursing school districts for purchasing buses should be re-examined, and consideration should be given to using mileage depreciation rather than calendar depreciation.

The LAP allocation formula. Under our current Learning Assistance Program (LAP) formula, 90 percent of state remedial education funding is based on norm-referenced test scores (not on WASL scores) and 10 percent is based on poverty. Beginning with the budget we will write next year for the 2005-07 biennium, a bill enacted this year requires us to drive out half of the money based on assessments and half on family income factors. Within those basic guidelines, many decisions will have to be made, such as whether to switch to using WASL scores, what measure of poverty to use, and whether there should be hold-harmless provisions. Research tells us that poverty is a primary cause of low student achievement. Districts have told us that it makes little sense to take money away from districts that are able to improve their test scores when the underlying challenges posed by high rates of poverty have not gone away. As the new LAP funding formula is developed, using poverty as the sole funding driver should be reexamined.

Grandfathered levy lid districts. The levy lid for most districts is 24 percent of state and federal revenues. Ninety-one districts, however, have been grandfathered at higher percentages, up to a high of 34 percent, which allows those districts to raise more in local levies. Districts that are able to take advantage of the higher levy capacity can use these dollars for higher supplemental salaries and enhanced programs, creating disparities among neighboring districts. It is time to reexamine the grandfathered levy lids, keeping in mind the key role played by levy equalization in maintaining an equitable funding system.